



HAS THE U.S. LOST ITS MOJO?

Outlook 2009
Conference Report



ATLANTIC
PROVINCES
ECONOMIC
COUNCIL

CONSEIL
ÉCONOMIQUE
DES PROVINCES
DE L'ATLANTIQUE



APEC's Outlook 2009 Conference:

Halifax, NS
Saint John, NB
Charlottetown, PE
St. John's, NL

Nov. 3, 2008
Nov. 4, 2008
Nov. 5, 2008
Nov. 7, 2008

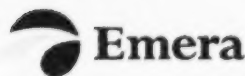
About APEC's Outlook Conferences

APEC holds its annual Outlook conferences in November. These highly regarded morning events are held in each of the four Atlantic provinces. The conferences include an economic outlook by APEC economists and presentations by industry leaders on a featured topic. These presentations are designed to provide

business and government with detailed provincial economic outlooks to support their business planning and identify new sectors and growth opportunities for the region. A continental breakfast and a morning coffee break provide ample opportunities for networking. The audience for this event has grown steadily over the years to about 700 delegates in the last two years. A majority of attendees are senior executives from business as well as government.

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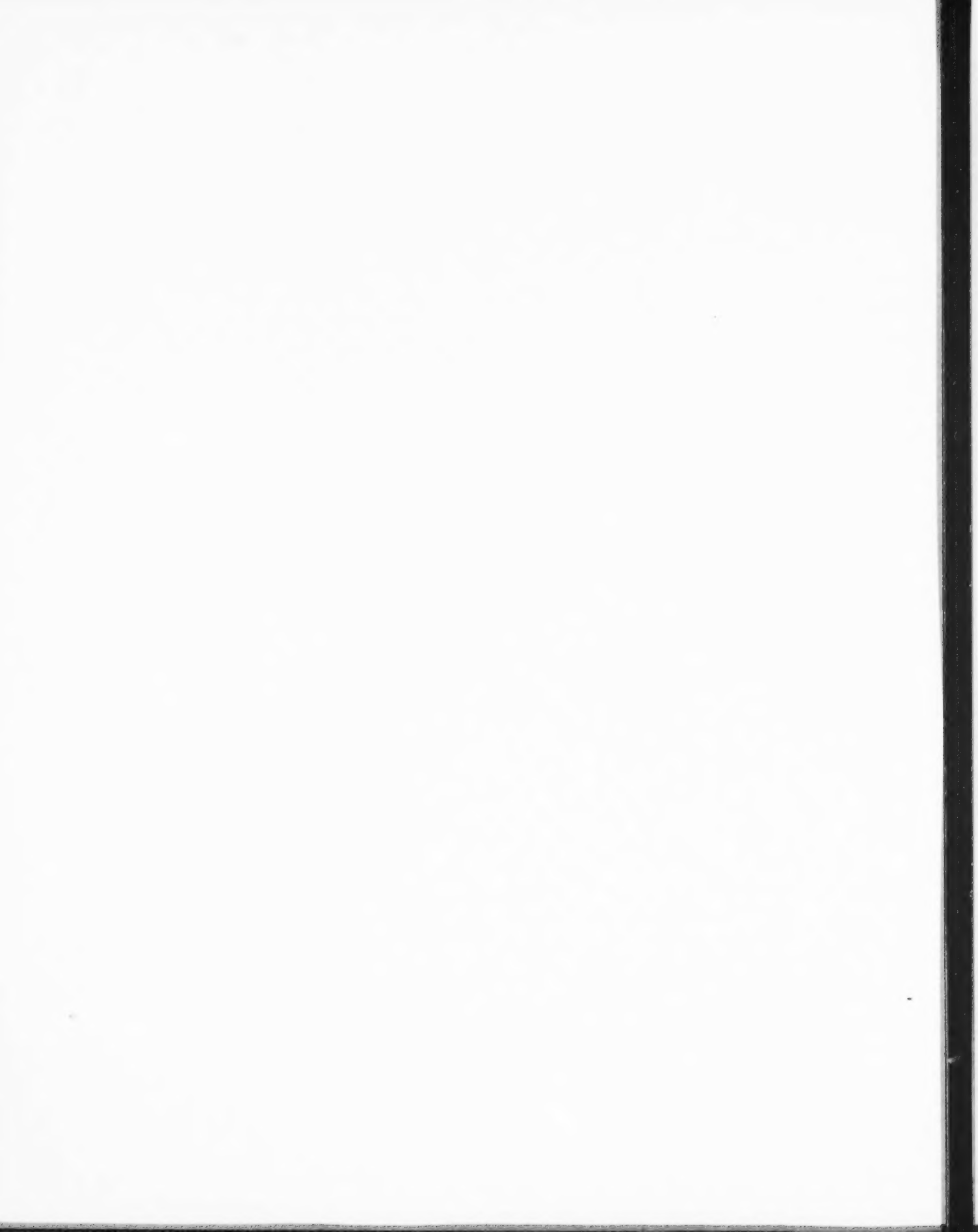


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Outlook **2009**
Atlantic Canada's
Business Outlook
Conference





President's Letter



Looking to the Future

In November 2008, the Atlantic Provinces Economic Council held its 14th annual Business Outlook conference. This conference is held annually in each of the Atlantic provinces, bringing together leaders from business, government and academia to examine the prospects for the region's economy over the coming year. Over the years, this event has grown to become the premier economic outlook conference in Atlantic Canada, of which we are justifiably proud.

Each year, the topic for the APEC conference is set about nine months in advance. This inevitably proves to be one of our most nerve-wracking tasks in the run of a year— to be prescient on the issue that will be the most durable and vital for a business audience several months into the future. If events move faster than anticipated, we may be simply rehashing old news. If we move on a topic too early, we may have trouble convincing you of its importance.

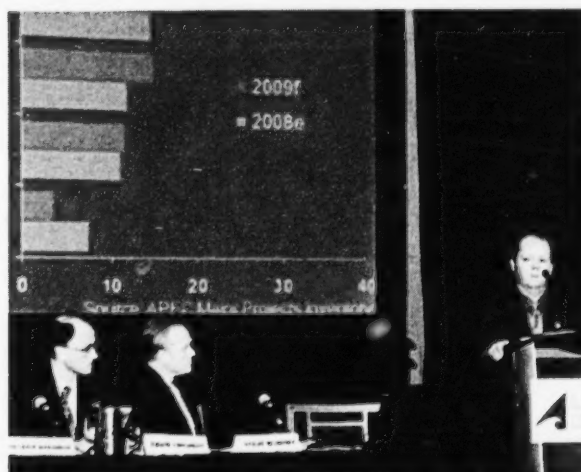
I hope you will agree that we certainly hit a home run with this year's topic - Has the U.S. Lost Its Mojo?

We, along with other forecasters, did not anticipate the speed at which the economy would unravel over the past year. However, we certainly recognized that the flagging U.S. economy has been at the top of Atlantic business concerns for some time. In asking this year's industry speakers to reflect on the evolving relationship with our largest trading partner, we elicited some fascinating responses, ranging from pragmatic approaches to costs control and market protection, to more cerebral thoughts on the opportunities for new technologies and the potential for the U.S. to regain its leadership role in the global economy. Far from being a gloomy perspective on the slide into the recession, this year's conference brought out the creativity, optimism and even humour of some of this region's leading entrepreneurs as they reposition their business interests in this rapidly changing environment.

APEC has been providing independent analysis and insight regarding the Atlantic Canadian economy for over 50 years. We welcome this opportunity to share with you the highlights of our most recent Outlook conference and look forward to your continued engagement and feedback on our programs and services.

Elizabeth Beale
President and CEO
Atlantic Provinces Economic Council

David Chaundy (L) and Steve Murphy listen to Patrick Brannon's presentation, Halifax



Has the U.S. Lost its Mojo?

The U.S. is the world's largest economy and has long been a global leader in innovation and productivity performance. Its strong growth has benefited Atlantic Canada as the biggest purchaser of Atlantic exports, the primary supplier of its technology and the largest foreign investor in the region. We may gripe at times about the imbalance in the relationship, but we have done well riding on American coat-tails, enjoying one of the highest standards of living in the world.

But the U.S. economy has been in recession since December 2007, and the consequences of its housing market meltdown and the resulting credit crunch have spread across the globe. The consequences of the U.S. slowdown are already being felt in Atlantic Canada with reduced sales, extended shutdowns and layoffs, most notably in the manufacturing sector. The economic downturn and tightening business credit has already affected several of the largest investment projects in the region's energy and mining sectors. A \$5 billion petrochemical plant in Nova Scotia and a \$2 billion refinery expansion in Newfoundland and Labrador have been postponed until credit markets are more supportive. Further delays or cancellations could be a big blow to the region: the economic prospects of the Atlantic region over the next 10 years hinge on the success in bringing these projects to fruition.

Fluctuations in the business cycle are nothing new – since 1950, we have experienced seven recessions in Canada. In the past, the U.S. as our key trading partner, has drawn us into recession, but it has also taken the lead role in pulling us out again. Can we rely on them to do the same this time around?

With its enormous reach and capacity, the U.S. economy is still a major force in the global economy. However the U.S. now finds its wings clipped by both domestic and external factors. Internally, the U.S. faces an enormous fiscal deficit which may inhibit its long-term competitiveness. Similarly U.S. consumers face unprecedented levels of debt. Whatever short-term changes are made by the new U.S. administration to encourage domestic demand, the economic recovery in that country could be slow and protracted.

Externally, the world has also changed. With the onset of global supply chains and a shrinking share of world trade in manufactured products, the U.S. no longer has the same leverage in the world economy. A bigger concern is the decline in the U.S. share of global trade for the highest value-added goods and services.

The innovation edge of U.S. companies fueled U.S. productivity growth over much of the last century and brought enormous benefits to Canadian companies. However many companies are now moving their research activities outside

North America. China for example is now on track to surpass the U.S. in the number of graduates holding science and engineering doctorates. If the U.S. and Canada are not able to build a stronger platform for innovation, the generation of wealth and prosperity in North America over the next century could be greatly diminished.

If one is able to see a glimmer of hope in the current economic maelstrom, it is that firms in Atlantic Canada are already pushing out to markets elsewhere in the world, although most business leaders will also point out that their principal focus is still to secure a greater share of U.S. markets. In the current economic crisis the U.S. has also shown some signs of being more open to working together with its trading partners although whether this will usher in a new era of economic cooperation remains to be seen: Could a subdued and more cooperative U.S. be more willing to address some of the outstanding border issues and trade barriers of concern to Canada? ★



Conference Summary

Atlantic Companies Responding to Challenges in the U.S. Economy

The deterioration in economic conditions south of the border is already being felt in Atlantic Canada. Outlook conference speakers and panellists described how the slowdown was affecting their businesses and what they expect to see over the coming year. In the face of challenging market conditions in the United States, the region's business leaders were taking steps to minimize the impact on their operations and, equally important, to position themselves for long term growth. Despite the short term difficulties, most panellists were bullish about the longer prospects in the United States which remains the prime market for many Atlantic companies.

Impact Now

The effects of the U.S. slowdown are being felt in many different sectors. Reduced U.S. car sales are contributing to falling demand for steel and hence iron ore from mines in Labrador. The slowdown in shipments of bulk products has contributed to plunging orders for new tugs and barges, eliminating the need for engineering services from companies such as Oceanic Consulting, which tests new ship designs.

With U.S. corporations looking to maintain profits and conserve cash in the face of declining demand, Atlantic businesses were bracing for widespread cuts to investment and discretionary spending, such as soft training for leadership and management skills. Similarly, budgets for advertising revenues are being cut, affecting radio stations' demand for new equipment,

such as Nautel's radio transmitters, and reducing the purchasing of new television programming.

The indirect impact of the U.S. slowdown on Central Canada was also worrying some Atlantic business leaders. The contraction in Ontario's motor vehicle and other manufacturing sectors due to declining exports to the U.S., was negatively affecting employment and incomes in the large Ontario market. This has the potential to affect everything from demand for beer from Atlantic breweries to fewer visits by Ontario tourists.

"The issue that's scaring us is what happens to Ontario, which has been a nice growth market for us over the years," said Moosehead's Andrew Oland.

The global financial crisis, which originated with the collapse of the U.S. subprime market, was also being felt by companies in the Atlantic region. Business leaders were paying more attention to cash flow and payment terms. Entrepreneurs reported that Canadian start-ups were struggling to raise new funds as the venture capital environment becomes less favourable. Small biotechnology companies were particularly vulnerable as they are critically dependent on capital markets to fund their research and development work.

One offsetting factor in the current economic crisis is the lower Canadian dollar. The appreciation of the Canadian dollar in recent years has forced many companies to become more efficient and to reorganize their business models.

For some, it meant shifting production to their U.S. operations. "When the Canadian dollar went to \$1.10 to the US dollar, that was the end of value-added exports to the U.S.," said High Liner's Henry Demone. The recent decline in the Canadian dollar has alleviated some of these cost pressures for businesses which had geared themselves to be competitive at parity with the U.S. dollar.

Short Term Responses

In the face of declining demand in their existing markets, firms were re-orientating their businesses to markets with stronger potential. This includes focusing on sectors that are not declining (such as government and defence) or putting more focus on either local Canadian markets or other international markets such as Europe and Asia. Companies were also adapting their sales pitch to fit the new emphasis on costs. Bluedrop Learning was now emphasizing the cost savings associated with e-learning, where it previously highlighted the greater time that knowledge was retained in e-learning.

However there were some divergences in terms of corporate response. Some companies were restricting expenditures to preserve cash or re-evaluating investment plans. "We're looking at the priorities and timing of our future planned expenditure," said Andre Krol of the Iron Ore Company of Canada. "We're going to take our foot off the accelerator a little bit." However, other leaders talked about "going deep". For knowledge-based companies, retaining their existing



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PEI delegates network
between speakers



workforce and technical expertise was key to their long-term survival. This was a time to invest in training their own employees and boost their internal R&D – thereby ensuring they were stronger and more competitive when they emerged from the recession.

Long Term Strategies

An underlying theme among the industry speakers was that they were looking beyond the current economic downturn, to ensure that they were positioning themselves for long-term growth. "If we sit on our hands now, and are overly concerned about short-term pain, and aren't thinking about the long term we will miss a terrific opportunity to leapfrog ahead of a lot of other places," said Atlantic Turbines' Brian Thompson. Some companies were looking at possible acquisitions and how they could increase market share as their competitors stumbled or pulled back.

A focus on fast-growing market opportunities was a key factor behind the bullish perspectives of several panellists. Their products and services were positioned, or being adapted, to take advantage of changes in the global economy, such as digital radio, the shift from traditional to new forms of advertising, rapid growth in demand for health care, and the increased demand for video games.

While many companies remain significantly dependent upon the U.S. market, others had deliberately diversified to take advantage of faster growing markets in Asia. Others like Oceanic Consulting are looking to change market segments to focus more on Europe instead of America.

Some companies were selling globally by being integrated into U.S. supply chains. By selling to large U.S. multinationals with their worldwide client bases, these Atlantic companies were benefiting from the trend to increased globalisation. For some businesses, the U.S. remained the lead market in their sector. For them, achieving success in the U.S. market was critical to ensuring success in other international markets.

Has the U.S. Lost it's Mojo?

The majority of participants felt that the U.S. had not lost its mojo. While there were differences in opinion as to how severe the downturn in the U.S. would be and how long its effects would last, most industry leaders remained bullish about long term growth prospects in the U.S. BioVectra's Ron Keefe suggested that, despite the current slowdown, he expected his industry to grow due to the rising demand for health care associated with a growing but aging U.S. population.

Michael Donovan perceived a more open climate in the U.S. towards collaborating with non-U.S. partners. "Our strategy is to re-orient ourselves to the U.S. as collaborators." But others were concerned that the growing number of job losses in the U.S. would stoke protectionist sentiments. Ambassador Michael Wilson cited a recent report that nearly half of Americans surveyed believed that trade agreements have led to job losses in the U.S., and only one in five thought that free trade leads to economic growth for America. However, Atlantic companies with U.S. subsidiaries felt partly insulated from any entrenchment measures.

With so many unknowns in the current economic situation, Atlantic business leaders re-iterated the approach that has served the region so well in previous economic downturns: Shore up existing business relationships, stick with what you know best and, above all, don't panic. ★

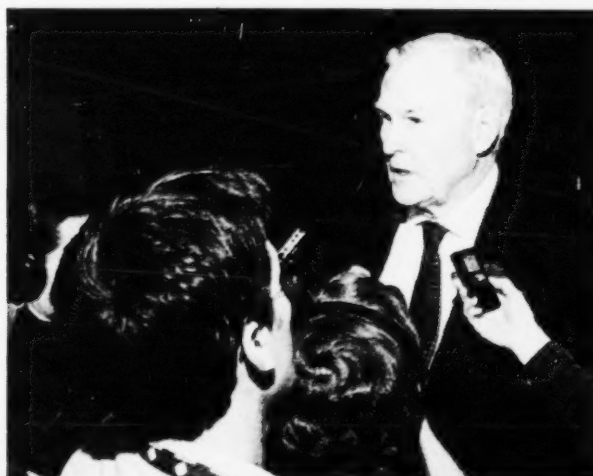


Keynote Speaker

Halifax

Hon. Michael Wilson,
Canadian Ambassador
to the United States

Ambassador Michael
Wilson, Halifax



Strengthening the Canada-U.S. Relationship

Michael Wilson, Canada's Ambassador to the U.S., emphasized the importance of economic ties between the U.S. and Canada.

Specifically, he pointed to the strengthened trade environment between Canada and the U.S. since the Canada-U.S. Free Trade Agreement was implemented in 1989 and then NAFTA in 1994. In the two subsequent decades, Canada-U.S. trade has tripled and investment flows have increased substantially. An example of this is the \$24 billion in goods Atlantic Canada sold into the U.S. last year, representing 80% of the region's total exports.

Wilson said that given the scale of this success, the path to continued economic growth for our two countries is our North American supply chains.

"Our trade does not mean that we drop container-loads of finished products on U.S. shores. The essence of our supply chains is that we make stuff together - products and services that improve the competitiveness of the final product through lower cost, better technology or better design. Much more of our trade is buying and selling within North American supply chains than it is in finished goods headed for the retail shelves," he said.

Today over a third of Canada-U.S. trade occurs between branches of the same corporations, and a similar amount for trade within supply chains, he said. And it's the efficiency of these North American cross-border supply chains that allows our

businesses to compete more effectively with Asia and Europe, and spurs innovation in our work force.

Managing the Border

The Ambassador stressed how important it was to effectively manage our shared border so that these economic ties and cross-border supply chains are not hindered.

"Managing the border sensibly and effectively is essential for our highly integrated industries," Wilson said. "We both need to reinvest in the border, to make it a true gateway to our prosperity not a cumbersome checkpoint that stifles our competitiveness."

Wilson discussed the importance of an efficient balance between improved security and trade.

"In the seven years since 9/11, both countries have invested heavily in border security for all the right reasons," he said. "We need a border where sound risk-management practises keep bad people and bad goods out, while ensuring that, on both sides of the border, legitimate travellers and trade make it in."

He highlighted other key attributes of a successful border relationship between Canada and the U.S., such as the elimination of unnecessary fees and unnecessary physical inspections. As well, the border should have tangible benefits for our best corporate citizens, those who have partnered with us by investing significant money to secure their cargo supply chains.

The U.S. and Atlantic Canada

The U.S. has not lost its mojo, said the Ambassador, adding "I think they're going to be in that leadership position for a long time, and I think there is, in many ways, a desire by the rest of the world to have the Americans keep that position of leadership so that they can join with them."

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Wilson said that there are areas Atlantic Canada can focus on improving to stay competitive in its bilateral relationship with the U.S., particularly amidst the ongoing global economic upheavals.

"Observers believe that Atlantic Canada must raise its productivity levels... productivity growth is the most important source of long-term economic growth," said Wilson. "It's a crucial component of the region's competitiveness."

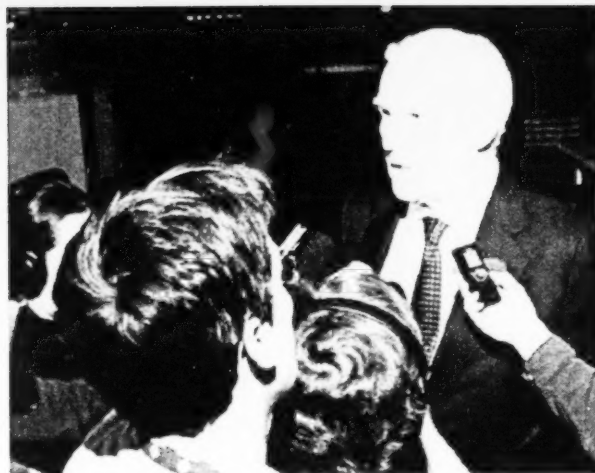
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Keynote Speakers

Charlottetown & St. John's

Brian Thompson,
*President,
Vector Aerospace*



Brian Thompson,
Charlottetown

Brian Thompson said Vector Aerospace, which repairs and overhauls a range of aircraft engines, traditionally generated 80% of its revenues in the U.S., but in the past eight years has diversified to other regions of the world. This diversification has been deliberate to capitalize on the more rapid growth in the aerospace industry outside the U.S.

"The U.S. market remains strong for us. However, our best growth has occurred in Europe, Africa and South America", he said. "Asia, particularly China and India, have seen strong passenger growth, are becoming part

of global supply chains, and therefore represent an excellent development opportunity for us," Thompson added.

While commercial orders may decline during a recession, Thompson says that defense industry work is expected to grow. And in tighter economic times, his business should do well as companies look to refurbish their planes, rather than replace them.

Thompson is optimistic for growth in the business jet market, particularly the higher end of that market which is experiencing unprecedented expansion, as companies recognize the cost and time savings associated with corporate charters. Other drivers are the increase in disposable income in Asia and the vast orders of business jets coming out of the Middle East.

He attributed much of the success of the PEI aerospace industry to its infrastructure. Having access to the infrastructure of CFB Summerside gave the industry a leg up in its initial years. Most of PEI's nine aerospace companies are located on the former air force base.

Thompson also lauded the effective integration of the community college system with the operations of the aerospace industry, which has developed a steady flow of skilled workers from which the sector can draw. The provincial government has also contributed to the aerospace sector's success by providing a supportive taxation environment.

Thompson said that the aerospace industry still faces considerable hurdles when exporting to the U.S., particularly in the post 9/11 world. "Aerospace is a tightly regulated industry - Homeland Security and other import and export controls mean we operate under close scrutiny," he said, adding that the ability to move things across the border quickly is vital. "If we can figure out ways to resolve these issues, particularly through Atlantic Canada and the Northeast U.S., that would be extremely important."

David MacInnis,
*VP, Policy, Government and Public
Affairs, Chevron Canada Resources*



David MacInnis,
St. John's

Large Oil Firms Well-Versed in Cyclical Volatility

Despite the recent volatility in oil prices, David MacInnis expressed confidence that the global demand for fuel and power will continue to grow significantly in the longer term. He said that fossil fuels will remain indispensable to meeting projected energy needs through 2030, providing 80% of total energy needs globally.

In Atlantic Canada Chevron is involved in the Hebron and Terra Nova oilfields as well as potential projects such as Hebron and South Hibernia and in the Orphan Basin. Chevron expects to grow

its on-the-ground presence and invest in the region over the next few years.

"We believe we're experiencing the cyclical nature of the industry, and for too many years have forgotten what the downslope looks like," he said. "Large oil companies are used to operating with some fluctuations, not just with commodity prices but in a host of other areas."

Oil prices have risen in recent years because of the growing global middle class in emerging markets, geopolitical pressures, the increased difficulty and expense involved in finding and extracting new supplies of oil and domestic supply constraints due to limitations on exploration and drilling.

MacInnis said oil markets are expected to remain relatively tight because of sluggish production growth. Issues such as carbon emissions and energy security will also continue to exert pressure on prices.

Regarding the oil sands, many of the bigger companies are taking a pause in some of their projects because of the current market conditions. And some of the smaller oil companies are definitely struggling.

"There is a downturn with respect to Alberta, but the reality is in order to get folks back home, we're going to need more projects and a more sustained industry," he said. To further develop the sector in Atlantic Canada, he said the oil industry had worked closely with Premier Danny Williams on the Hebron project, and praised Newfoundland and Labrador for keeping a close eye on its competitiveness factors.

"We're well-placed to build on the positive things that the Atlantic governments and regulatory boards have put in place," said MacInnis.



Keynote Speaker

Saint John

Phillip Ribbeck,
President, Repsol Energy
Canada/Repsol Energy
North America

Canaport LNG Terminal,
Saint John, NB
(Photo courtesy of
Canaport)



Phillip Ribbeck, Saint John

Northeast U.S. Power Demand Supports LNG Project

Phillip Ribbeck of Repsol Energy North America said that liquid natural gas (LNG) from Atlantic Canada is poised to play an important role in the New England marketplace.

Repsol is one of the world's top ten independent oil companies and a partner with Irving Oil in the Canaport LNG terminal in Saint John. The Canaport facility was built to service the Northeast U.S. market which has the second-greatest growth in demand in the U.S. The growing demand from the six New England states is currently 0.7% per year, with an expected overall growth of 22% between now and 2025.

"Electrical generation is the big sector with relation to overall growth, and if you listen to the legislators and regulators in the region, they're looking for growth to come from alternative energy sources -- they're focused on that in a big way," he said. There is also a growing focus on cleaner energy and natural gas couples well with alternative energy sources such as wind or solar he added.

He said the New England region suffers from constrained natural gas capacity while the gulf coast has an overabundance of supply, but no capacity to move that supply out of that region. "In wintertime there is no additional capacity coming up from the gulf coast to the Northeast, and we have recently seen the same constraints in the summer months too," said Ribbeck.

The one type of power Ribbeck identified to be problematic to the growing demand for natural gas industry was people power. "The biggest problem we have right now is people -- enough people, enough contractors to carry out those conversions to natural gas," said Ribbeck.

An important issue for Atlantic Canada is that of supply sources for LNG that are needed to commit to the Northeast U.S. market.

Ribbeck is not convinced the currently high level of demand for LNG from the Asia-Pacific basin is sustainable. He noted that the boost in Asian LNG demand was partially due to Japan shutting down some of its nuclear reactors in recent years, and that when those reactors are back on line demand will fall. Also demand in South Korea peaks in winter which means more supply will be available in New England in the summer when its demand peaks.

"We believe the market will become more dependent on our LNG supplies, because the infrastructure that comes up from the traditional supply basins is fairly constrained"

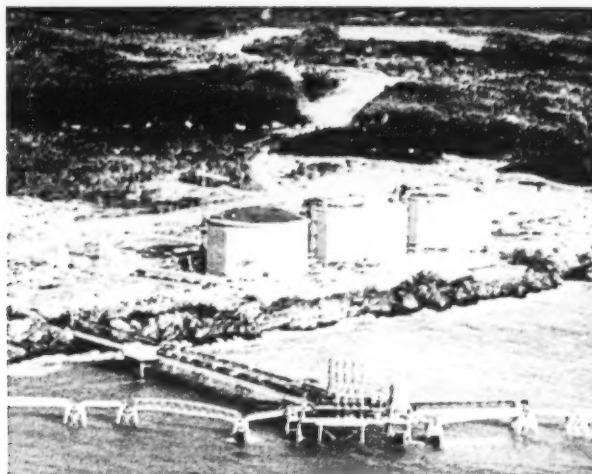
Ribbeck said that Repsol's Canaport LNG project, along with Canadian projects under development, will be able to support growth in demand from the Northeast markets through the Maritimes and Northeast Pipeline to at least 2015, after which expansions are possible. ★



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Saint John

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Phillip Ribbeck, Saint John

Northeast U.S. Power Demand Supports LNG Project

Phillip Ribbeck of Repsol Energy North America said that liquid natural gas (LNG) from Atlantic Canada is poised to play an important role in the New England marketplace.

Repsol is one of the world's top ten independent oil companies and a partner with Irving Oil in the Canaport LNG terminal in Saint John. The Canaport facility was built to service the Northeast U.S. market which has the second-greatest growth in demand in the U.S. The growing demand from the six New England states is currently 0.7% per year, with an expected overall growth of 22% between now and 2025.

"Electrical generation is the big sector with relation to overall growth, and if you listen to the legislators and regulators in the region, they're looking for growth to come from alternative energy sources — they're focused on that in a big way," he said. There is also a growing focus on cleaner energy and natural gas couples well with alternative energy sources such as wind or solar he added.

He said the New England region suffers from constrained natural gas capacity while the gulf coast has an overabundance of supply, but no capacity to move that supply out of that region. "In wintertime there is no additional capacity coming up from the gulf coast to the Northeast, and we have recently seen the same constraints in the summer months too," said Ribbeck.

The one type of power Ribbeck identified to be problematic to the growing demand for natural gas industry was people power. "The biggest problem we have right now is people — enough people, enough contractors to carry out those conversions to natural gas," said Ribbeck.

An important issue for Atlantic Canada is that of supply sources for LNG that are needed to commit to the Northeast U.S. market.

Ribbeck is not convinced the currently high level of demand for LNG from the Asia-Pacific basin is sustainable. He noted that the boost in Asian LNG demand was partially due to Japan shutting down some of its nuclear reactors in recent years, and that when those reactors are back on line demand will fall. Also demand in South Korea peaks in winter which means more supply will be available in New England in the summer when its demand peaks.

"We believe the market will become more dependent on our LNG supplies, because the infrastructure that comes up from the traditional supply basins is fairly constrained"

Ribbeck said that Repsol's Canaport LNG project, along with Canadian projects under development, will be able to support growth in demand from the Northeast markets through the Maritimes and Northeast Pipeline to at least 2015, after which expansions are possible. ★



Industry Panel

Marcel LeBrun (L)
and Beth Kelly Hatt,
Saint John



Tourism & Media

Kevin Murphy,
President, Murphy Group
and Chair, Tourism Advisory
Council of PEI

"Right now I feel in tourism that we have an issue with destination PEI as a product. The status quo is not acceptable."

For Kevin Murphy, much of PEI's challenge in attracting tourists from the U.S. comes from the huge competition the small province faces from other destinations. He cites the less-than \$500,000 that PEI spends annually marketing the province in the U.S., compared with the tens of millions of dollars other destinations spend in marketing to U.S. tourists. Facing the perennial challenge of small marketing budgets, Murphy says that the tourism industry has to be more creative, more focused and more strategic. Specifically, the tourism industry must recognize that the way it has been marketing destination PEI in recent years has not been effective, and that it needs to develop a better product. Rather than relying on advertising agencies to devise catchy marketing campaigns, Murphy says that Island tourism must engage in a wholesale reassessment of the product and devise a strategy to attract not only today's tourist, but also the tourists of 2015 and beyond.

Beth Kelly Hatt,
President, Aquila Tours

"The cruise lines have said they will continue to fill their ships at any cost, and as they will sell tickets for less, they expect tourism operators to sell their services to them for less."

Beth Kelly Hatt of Aquila Tours, which offers tours of the Saint John area to cruise passengers, anticipates long-term expansion in the cruise industry in Atlantic Canada. She sees the growth prospects evident in the millions of dollars cruise lines are currently spending building new ships and in the fact that only 17% of the U.S. population has cruised to date. However, she noted that tourism generally is suffering from the U.S. downturn, and the Atlantic region is expecting to see fewer U.S. visitors, particularly by car. Older travellers, who make up the bulk of visitors, are normally less affected in times of slowdown, but the current economic turmoil is hurting the two areas where older U.S. customers hold most of their money: in their houses and in their financial investments. That the Canadian dollar has gone down Kelly Hatt says is helping cruise-related tourism all over Atlantic Canada, as payment comes in US dollars. Though the reduced exchange rate offers some relief, cruise lines are looking to reduce costs and are putting pressure on their suppliers and tour operators.

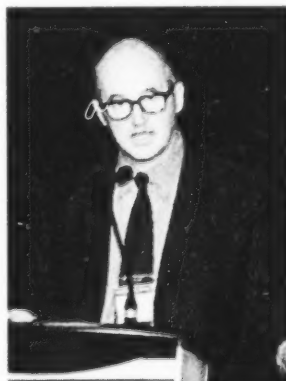
Michael Donovan,
Chairman and CEO,
DHX Media Ltd.

"Up to now the U.S. has resisted any collaboration that was outside the U.S., but this glacier has recently started to melt."

For Michael Donovan, a non-U.S. strategy has proven successful, with

DHX Media's children's programming capitalizing on one of Canada's areas of global expertise -- children's animation. He said that Canada has been able to compete with the U.S. in part because of lower costs. However, Canada's cost advantage over America is decreasing, while the U.S. continues to invest heavily in areas of future growth, specifically the Internet, cell phones and children's games. He noted that the media industry has been countercyclical historically: during a recession people rent more videos and watch more TV as a cheaper form of entertainment than an evening out. One-third of media income comes from advertising which is down 15% year-over-year, causing media content purchasers to cut back. He noted that at the beginning of a down cycle advertising typically declines because it is discretionary but as the down cycle progresses, companies realize that advertising is critical to their recovery, which is why Donovan is confident his sector will do well in the current slowdown. In the long run, he said

DHX is well-positioned to take advantage of the shifting marketplace that features growth in Internet content, a rapidly growing number digital channels that require content and the global demand for children's programming that can be easily dubbed into other languages.



Michael Donovan,
Halifax



Industry Panel



IT & E-Learning

Marcel Lebrun,
CEO, Radian6

"The downturn isn't going to affect us so much... It means we'll just have to go fish in a few more ponds."

Marcel LeBrun's social media monitoring company Radian6, which monitors social media such as blogs and Facebook to help firms track what customers are saying about their products, generates about 95% of its revenues in the U.S. Radian6 is positioned to profit from the huge shift from traditional marketing to on-line marketing that is presently changing how companies approach their customers and their branding. As a tech startup, Lebrun said Radian6 has no physical or geographical constraints that would hinder it from selling into Europe or other places, yet he still focuses a disproportionate amount on the U.S. because he believes that if you become the market leader in the U.S., you can become the market leader in the world. While he said his company is not immune to the market crunch, Radian6 is less likely to be affected than others, due to the relatively small amount of outlay required to obtain his company's services. However, he said that bigger investments will be slashed from budgets as U.S. companies tighten their belt to cope with the market upheavals.

John Eden,
Director of Business, Sculpin QA and
President of the Interactive Media
Alliance of PEI

"Smaller companies without the project management issues of some larger companies may be well-positioned to capture some of the business that becomes available."

Game testing company Sculpin QA is part of the small but rapidly expanding video game industry on PEI that is seeing growth in the midst of the economic crisis. John Eden said that Sculpin's service contracts to the U.S. actually increased from 50% to 80% of its business in 2008, but the purchasers of these products are global. Companies are looking to outsource to lower cost locations, and Eastern Canada is an attractive option especially with a lower loonie. Immigration is a key source of the video game industry's labour pool on PEI as only 10% its workers are local because of a lack of requisite experience. Eden said the other 90% who immigrated to the area have high salaries, are having families and are buying houses, which stimulates the local economy. In the long term, Eden said his industry is set for continued growth despite the economic crisis because many people don't yet have video consoles. Once a console is acquired gamers tend to continue playing even as they age, so the customer base keeps expanding.

Emad Rizkalla,
President, Blue Drop Performance
Learning

"Even in the gloomiest times in a recession, companies still need to manage training. As long as there are employees, there will be training."

Emad Rizkalla said that because of the economic slowdown his e-learning company Blue Drop is shifting its marketing focus to emphasize the cost savings from e-learning and its greater return on investment than traditional training. As well, he is focusing his marketing on the type of training that directly boosts productivity and that are related to new processes that

companies will roll out as they restructure to reduce their costs. Rather than trying to get more market share with his existing clients, Rizkalla said Blue Drop is going after new markets. He said they are finding new opportunities in government, defence and aerospace. And after focusing on the U.S. and other markets for the past five years, Rizkalla said he

was pleasantly surprised to find strong opportunities in the local market, such as with local government and with oil and gas companies. As for the future, he sees the current economic turmoil ushering in a sobering era that will restrain cavalier attitudes towards credit and risky investment that have epitomized the U.S. in recent years.



Emad Rizkalla, St. John's



Industry Panel

Delegates in Halifax take in the conference



Engineering Design & Advanced Manufacturing

Dr. Dan Walker,
President, Oceanic Consulting Corp.

"When things slow down commercially it's a good time to get your house in order. And it will help us retain people."

Dan Walker said the projects undertaken by Oceanic Consulting, which provides testing services to the marine engineering industry, are a bellweather of the economy. He said that when companies aren't building tugs and barges, it indicates they are not shipping bulk products, and that his company has definitely felt the effects of this slowdown already. Another shift he notes is the effect of the exchange rate which has greatly affected Oceanic's competitiveness in the U.S., where it does 40% of its business, and caused the company to become more cost conscious. Walker said a key priority during the slowdown will be the retention of his firm's technical capability, and applying that capability to its own internal development efforts. Walker said that a key advantage of being a smaller company is it can change fairly quickly, allowing Oceanic to focus on the sectors not being hit as hard and focusing more on Europe instead of America.



Dan Walker, St. John's

Ron Keefe,
President and CEO, BioVectra Inc.

"In light of the current economic crisis... we're being a little more cautious in terms of conserving cash"

Ron Keefe saw the financial impacts of the current economic crisis filtering through to the region's biotechnology sector, but the effects differed depending on the size of the companies involved. Big pharmaceutical and biotechnology companies, which have been largely insulated from the credit turmoil by their sizeable cash reserves, are now seeking higher returns on investment in light of the increased cost of capital. This has led to delayed or cancelled procurement decisions, putting potential pressure on BioVectra's revenues. Meanwhile, tightening capital markets have proven very difficult for smaller biotechnology businesses who rely on them heavily to fund their research and development, making it difficult for them to buy BioVectra's services. In the short term Keefe said BioVectra will likely experience weaker revenue growth but is coping through capital conservation strategies and slowing the speed of its expansion. However, Keefe was bullish about the long-term growth potential in the U.S. market from increases in health-care demand. Currently, about 80-85% of BioVectra's revenues come from U.S.-based companies.



Ron Keefe, Charlottetown

Peter Conlon,
President and CEO, Nautel

"Now is the time to be contrarian... and position yourself for when the U.S. does find its mojo again."

Peter Conlon's company Nautel makes radio transmitters used in 170 countries. Rather than adopting a wait-and-see attitude, he said Nautel is instead taking a bullish approach, hiring sales people and expanding its product footprint in anticipation of the inevitable market rebound. This approach includes

focusing on capturing the emerging digital radio market. However, he said the economic turmoil has reduced Nautel's U.S. business, but this was countered by an increase in business in other regions. Nautel had been previously operating inefficiently, but Conlon said the stronger Canadian dollar prompted the company to become more productive, to bring to market new products

that have naturally higher growth margins and to ensure it can be competitive in a par-dollar world. And though the spectre of U.S. protectionism is possible, he said that Nautel would be insulated from this as it currently has a U.S. operation.



Industry Panel

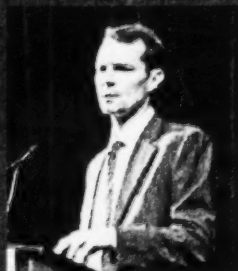
Manufacturing and Mining



**Andrew Oland, President,
Moosehead Breweries Ltd.**

"It's important that we keep this border open and goods flowing back and forth, because it hurts families on both sides of the border when it becomes tight."

While 50% of its market output goes to the U.S., Andrew Oland said a bigger concern was how the economic downturn would affect Ontario, which has become a more important



Andrew Oland, Saint John

market for Moosehead in recent years than New Brunswick. Regarding the U.S., Oland said that its large market size ensured there are still lots of opportunities in spite of the downturn. Moosehead has felt cost impacts from higher prices of its agricultural inputs and increased shipping costs. He said that the traditional triangular transportation system between Atlantic Canada, the U.S. and Central Canada is disappearing because of declines in New Brunswick's exports. Moosehead has therefore had to be far more innovative and far more aggressive in getting its consumables back to Atlantic Canada from other regions, although it has been easier to get product out of New Brunswick.

**Henry Demone,
President and CEO, High Liner Foods**

"I'm confident that the best opportunities are in the U.S. ... there is no other economy in the world even close to the U.S."

Henry Demone of High Liner foods said his company is fortunate to be in the food business, as consumers will always need to eat and during a downturn they tend to eat more at home to save money, boosting retail sales. Conversely, for several months High Liner has seen an accelerating decline in its food service sales. Demone said the current market conditions were creating opportunities for High Liner to grab market share from leading competitors in the U.S. who are food-service focused, as well as creating medium-term opportunities to buy some of High Liner's competitors outright. The recent rise of the Canadian dollar to parity put an end to High Liner's value-added exports to the U.S., so that now almost all of its production for the U.S. market is done in America. And though he anticipates a rise in U.S. protectionism, Demone said High Liner's self-standing U.S. subsidiary allows it to withstand any such trend.

**Dr. Andre Krol, Vice President
Business Evaluation & Development,
Iron Ore Company of Canada**

"The bulk of our output goes overseas, which has been a product of our market diversification strategy where we have looked to balance risk and opportunity."

Andre Krol said the Iron Ore Company of Canada (IOC) has been somewhat insulated from the U.S. turmoil by its market diversification strategy, as only 30% of its sales are in North America. A decline in steel demand from automakers, for example, is already reducing the demand for iron ore, although these impacts will dissipate over time. In light of the current drop in steel prices, IOC has been looking to take advantage of the reductions on input costs of its projects. He said that IOC's main challenge is that it is a relatively small and high-cost operation compared with its main competitors in Australia and Brazil, who don't have the adverse winter conditions, who have large production systems and produce high grade ore. However, he said that IOC's competitive advantage comes from its power costs, the quality of its ore, which is low in impurities, and that its pellets produce less greenhouse gas emissions when turned to steel which becomes more attractive as environmental concerns become more prominent.



Andre Krol, St. John's

About the Atlantic Provinces Economic Council

The Atlantic Provinces Economic Council (APEC) is an independent think-tank dedicated to economic progress in Atlantic Canada. APEC is a trusted source of analysis and advice on current and emerging trends in the region's economy. Founded in 1954, APEC is an effective catalyst through which government, business, labour and other stakeholders can develop the strategies to respond to a changing world.

More information on APEC is available by:
Telephone: (902) 422-6516
E-mail: info@apec-econ.ca
Website: www.apec-econ.ca

APEC Membership Benefits

The Atlantic Provinces Economic Council (APEC) plays a vital role in promoting economic growth in Atlantic Canada through research, publications, conferences and leadership on key economic issues. Support from our members is essential to our continued success as an independent voice for Atlantic Canada.

Membership benefits include:

- Detailed quarterly analysis and reports on the Atlantic region's economy;
- Annual economic forecasts;
- Access to APEC's members-only website, which features a searchable version of APEC's Major Projects Inventory, dynamic charts and tables illustrating current economic trends and performance in Atlantic Canada, select presentations by APEC staff, access to all APEC publications in electronic format and account management and online payment options;
- Discounted rates for conferences and other events;
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